



DRA

*Division of Ratepayer Advocates
California Public Utilities Commission*

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February 14, 2006

Mr. Sean Gallagher, Director – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Protest to Southwest Gas Corporation Advice Letter No. 752

Dear Mr. Gallagher:

On January 24, 2006, Southwest Gas Corporation (Southwest) submitted Advice Letter (AL) No.752 applicable to its Southern and Northern Divisions, requesting authorization to make accounting entries to reflect shared savings associated with Southwest's Gas Cost Incentive Mechanism (GCIM). Specifically, Southwest requests authorization to make a debit entry in the Purchased Gas Cost Balancing Account to account for the shared savings in Southwest's Northern California rate jurisdiction of \$47,273. Southwest states that "Of this amount, twenty-five percent, or \$11,818, is to be retained by shareholders, while the remaining seventy-five percent, or \$35,455, is to be shared with customers." On the same day that Southwest submitted its AL to the Commission, it also provided its GCIM "annual report" to the Energy Division and the Division of Ratepayer Advocates (DRA).

DRA protests Southwest AL 752 based on the fact that it does not consider Southwest's annual GCIM report, provided in conjunction with the AL, to be in compliance with the reporting and filing requirements contained in its GCIM, approved in D.05-05-032. Further, Southwest's AL addresses a partial GCIM year (June 1, 2005 through October 31, 2005) and not an entire annual GCIM period (November 1 through October 31). DRA recommends that review of Southwest's first partial GCIM results be deferred to its first full year GCIM report covering the period November 1, 2005 through October 31, 2006, and including June 1, 2005 through October 31, 2005.

In accordance with its GCIM tariffs, SWG's reporting and filing requirements are the following:

Within ninety (90) days of the conclusion of each annual GCIM period, the Utility shall submit to the Commission's Energy Division and Office of Ratepayer Advocates (ORA) a compliance filing containing the annual GCIM report. The report will describe the results of the annual GCIM period and provide all necessary data in support of the calculation of the

GCIM period shared savings or costs. The confidential contents of the report are subject to the provisions of the General Order 66-C and Section 583 of the Public Utilities Code. If the compliance report indicates that shared savings or costs are warranted, Southwest shall file an advice letter requesting authorization to make the appropriate accounting entries. (Southwest Preliminary Statements 19.I as approved by D.05-05-032)

DRA finds Southwest's "annual" report deficient, as it does not contain any discussion or description of its procurement activities under the GCIM, nor does it provide sufficient data supporting the aggregate cost and benchmark calculations that were provided. Southwest's report simply consists of a cover letter and three confidential calculation summaries, showing total and monthly GCIM calculations. Further, due to the timing of the commencement of the GCIM, Southwest's annual report did not address a full annual period, but rather the initial 5 month of its first GCIM period. The AL seeks authorization for a PGA entry to implement the GCIM results as summarized in Southwest's report.

DRA recommends that the Commission defer consideration of Southwest's report and AL and direct Southwest to withdraw its AL. Instead, Southwest should provide a more comprehensive annual report after the completion of its first full GCIM annual period, and include the initial 5 months addressed in its AL for review at that time. DRA intends to work collaboratively with Southwest to provide guidance as to the content of future GCIM annual reports. If the Commission decides to authorize the PGA adjustment for the proposed \$11,818 shareholder reward at this time, DRA recommends that it do so subject to refund, pending audit of the calculation.

If you have questions or need information regarding this protest, please contact Jacqueline Greig at (415) 703-1079.

Sincerely,

R. Mark Pocta
Program Manager
Division of Ratepayer Advocates

cc: Richard Myers, Energy Division
Jerry Royer, Energy Division
Roger C. Montgomery, Southwest Gas Corporation